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Report

drawn up on behalf of the Committee on External Trade Relations

on trade relations between
the Six and Japan

Rapporteur : Mr. Baas

ENGLISH EDITION *)

*) This translation must not be treated as an official text. Readers are reminded that the official texts exist only in the Dutch, French, German and Italian languages.

By a letter from the President of the European Parliament dated 10 October 1969 the Committee on External Trade Relations was authorized to submit a report on trade relations between the Six and Japan. As early as 24 February 1969 the Committee had requested Mr. Baas to give close attention to this matter and to submit a report thereon.

The Committee on External Trade Relations examined this report at its meetings of 16 December 1969 and 22 January 1970; at the latter meeting, the motion for a resolution and explanatory statement relating thereto were unanimously adopted with one abstention.

The following were present: Messrs. Kriedemann, Acting-Chairman; Westerterp, Vice-Chairman; Baas, Rapporteur; Artzinger, Bading, Boano, Bos, Bousquet, d'Angelosante, De Winter, Dewulf (deputizing for Mr. Hahn), Fellermaier, Miss Flesch, Messrs. Klinker, Lohr, Richarts (deputizing for Mr. Mitterdorfer), Vetrone and Vredeling.

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A

The Committee on External Trade Relations hereby submits to the European Parliament the following motion for a resolution and explanatory statement:

Motion for a resolution on trade relations between the Six and Japan

The European Parliament,

- a) having regard to Japan's importance as a world trade partner,
- b) having regard to the rapid growth of the Japanese economic potential,
- c) having regard to the report of the Committee on External Trade Relations (Doc. 212/69),
- d) having heard the oral report of the representative of the Commission of the European Communities,

1. Finds that, for a number of years, the member States, as a Community, have generally had a passive attitude in regard to taking practical steps for co-ordinating and unifying their divergent systems of trade relations with Japan;

2. Is gratified to note, therefore, that, on 10 November 1969, the Council of the European Communities empowered the European Commission to initiate exploratory talks with Japan with a view to arriving at a Community agreement with that country;

3. Hopes that the Japanese Government will give a favourable reply to the offer of negotiations of the European Communities, this being, at the expiry of the transitional phase, the only possible method of finding constructive solutions to the problems of mutual trade relations;

4. Considers that these trade negotiations should lead to a progressive and extensive liberalization of trade between the two parties trusts that Japan will be similarly inclined;

5. Invites the European Commission to see to it that a common list of products is established for the Community market which is circumscribed by a uniform customs frontier; the sensitivity of these products would warrant, with regard to their importation from Japan, special measures or even the provisional retention of quotas;

6. Is of the opinion that the establishment of closer contacts between the economies of Japan and the EEC, whose structures differ in certain respects, make it necessary to include in the future agreement a safeguard clause that would be applicable in cases of actual or potential market disturbances due to imports from the partner countries;

7. Lays down as a principle that, under the future agreement, it shall be possible for the two contracting parties to resort to this safeguard clause on a basis of full reciprocity and that, with regard to the European Community which is also a single market for third countries, the clause shall be applied in an entirely uniform manner;

8. Points out that the dynamic expansion of both the Japanese and the European economies in regard to technology and specialization cannot make further progress unless these areas can depend, for the marketing of their products, on ever-larger markets, and would therefore draw the attention of the Council of the European Communities and of the European Commission to the fact that modern trade relations between the Community and Japan cannot remain restricted to regulations on trade between the two parties but must consist in wider economic co-operation in all fields of common interest such as the free movement of capital between the two parties, the position of the parties on the world raw materials market, world development problems, etc.;

9. Is convinced that such an agreement, concluded between two influential partners in world trade, will contribute not only to the economic expansion of the two parties but also to the harmonious development of the whole of world trade;

10. Requests its Committee concerned to follow very closely the development of questions relating to trade between the EEC and Japan and to consider the possibility of establishing contacts with members of the Japanese Parliament;

11. Invites its President to forward this resolution and the report of its Committee concerned to the Council and to the Commission of the European Communities as well as, for information, to the Japanese Government and Parliament.

B

EXPLANATORY STATEMENT

I—Background to the question of trade relations between the EEC and Japan

a) *Historical survey*

1. As early as 1963 the former Committee on External Trade Relations had been apprised, for information, of a carefully substantiated proposal for a decision⁽¹⁾ on relations between the Community and Japan. This document was an attempt on the part of the Commission to obtain the Council's authorization to start exploratory talks with Japan on the possibility of concluding a trade agreement between that country and the Community.

This draft mandate for negotiations with Japan came within the context of the implementation of the action programme which the Council had adopted on 25 September 1962⁽²⁾. The Executive stressed the need for a trade agreement with Japan and very aptly pointed out—in the Opinion of the Committee on External Trade Relations—the disparities between the various import systems applied to Japan by the member States, and the difficulties that might arise from these differences with regard to the abolition of customs barriers between the member States. (Proof of these difficulties may be seen in the number of claims by member States to Article 115 of the EEC Treaty; these problems had, as a matter of fact, been examined as early as 1959 by the Working Party set up by the member States for the implementation of Article 115 of the EEC Treaty.)⁽³⁾

2. In its explanatory statement on the draft decision of 1963, the Executive dealt with the matter at great length. It stressed the fact that while, at the beginning of the sixties, the volume of trade with Japan was no more than 1 to 2 per cent of the whole of the external trade of the member States, this proportion could only increase. In view of the rate of expansion of Japan's economy that country had to find new markets. This explains

its joining GATT in 1955 and the OECD in 1964. However, Japan remains handicapped by its import system which is still highly protectionist, as well as by the level of costs which, at the time and for certain products at least, was relatively low and virtually an obstacle to imports.

3. The Commission also emphasized the differences of opinion among the member States as to what their trade policies should be in relation to Japan. When Japan joined GATT in 1955, France and the Benelux countries referred to Article XXXV of the General Agreement (exclusion from GATT's preferential treatment). In 1963, France and the Benelux countries renounced their right to invoke Article XXXV and, instead, agreed with Japan on the introduction of a safeguard clause. The Federal Republic of Germany and Italy had not referred to Article XXXV of the General Agreement so that these two countries have no legal grounds for excluding Japan from the benefit of GATT's preferential system.

4. In 1959 the Executive had preliminary discussions with the Six and the Japanese Mission in Brussels on a common list of products regarded as 'sensitive' by the Community, and on a safeguard clause designed to protect these products. As a result of these talks, the harmonization of trade policies in relation to Japan became one of the key points of the Council's programme of work for 1962.

The Commission's aim was to promote a gradual increase of trade with Japan. This implied liberalization measures and, at the same time, steps to prevent any mutual market disturbances. In 1963, the main concern was therefore the concluding of an essentially non-tariff agreement.

5. In its explanatory statement on the 1963 draft decision, the EEC Commission also stressed the fact that the Community's position for starting negotiations did not improve with time, particularly in view of the appreciable decrease in the number of discriminatory import quotas between 1960 and 1963 and the continuing drop in these quotas as a result of bilateral negotiations between the member countries and Japan or other measures. Thus the 'Community average' was constantly fall-

⁽¹⁾ Doc. I/COM (63) 245 of 26.6.63; Memo to Members of 9.9.63.

⁽²⁾ Official Gazette No. 90, p. 2353/62.

⁽³⁾ See para. 4.

ing and this automatically reduced the possibilities for concession to Japan⁽¹⁾.

In addition, at the beginning of 1963 Japan renounced its right to resort to Article XII of GATT (balance-of-payments difficulties); consequently, Japan was necessarily supposed to be in a position further to liberalize its imports; on the other hand, a more marked liberalizing trend towards Japan appeared in the member countries of the OECD, on the very eve, so to speak, of the Kennedy Round of negotiations. This liberalization could only make near-tariff protection measures more urgent.

This accounts for the fact that the European Parliament⁽²⁾ and the Economic and Social Committee both urged on 27 March 1963 that the problems of quotas *vis-à-vis* Japan be tackled as soon as possible.

6. Among the results achieved in 1963, the following may be mentioned:

- i) The adding to the common customs tariff of a *joint* right (i.e. more specific *ad valorem*) for *ceramic* products⁽³⁾.
- ii) The signing, during the Dillon negotiations, of a limited *tariff agreement* with Japan (applying to products of a commercial value of \$5,000m in both directions)⁽⁴⁾.
- iii) The *global treatment* applied by the member States, under the International Agreement of 1962 on *cotton textiles*, to their import quotas.
- iv) *Preliminary consultations* on an agreement between the Community and Japan, in accordance with the Council decision of 9 October 1961 concerning a consultation procedure for negotiations on agreements in respect of trade relations between the member States and third countries⁽⁵⁾.
- v) The Council decision of 13 and 14 November 1962⁽⁶⁾ on the inclusion of a Community safeguard clause in trade agreements between member States and Japan. In fact, while member States were prepared to adopt this provision, its implementation was *opposed* by the Japanese Government which stated that it was not prepared to extend the effects of the safeguard clause to all member States.

The EEC Commission was, therefore, fully justified in considering that the results achieved with regard to co-ordinating and unifying the trade policies of the Six in relation to Japan were only a 'minimum' and had a purely 'fragmentary' character.

7. In a supplementary document issued in 1964⁽⁷⁾, the Executive added to its remarks of the previous year that there was more scope for bilateral agreements between member States and Japan, that it was technically possible to introduce Community provisions for controlling Community quotas and applying a Community safeguard clause and, lastly, that the signing of a Community agreement did not necessarily exclude, at least for the transitional period of the EEC Treaty, supplementary agreements between the member States and Japan. Finally, the Executive suggested that provision be made in the negotiating mandate for a minimum negative list (including products regarded as 'sensitive' by all member States) as well as a maximum negative list (including all products regarded as sensitive by the various member States), and only to draw up a final list at the close of the negotiations.

8. This additional document does not appear to have been of any help either in proceeding to practical measures.

The reason for referring here to these old proposals is to show that the Executive had been aware from the very beginning of the problems arising in this matter. It seems, however, that it did not sufficiently draw the Council's attention to these problems. Anyway, time has passed and it must be admitted that nothing has been done so far.

The Committee on External Relations is therefore glad to observe that the Council of Ministers, too, has recently realized the need for an early start to negotiations with Japan⁽⁸⁾.

b) Japan's foreign policy

9. With regard to foreign policy, the position of Japan as a major economic power in Asia⁽⁹⁾ is governed by its relations with the United States, the USSR, the People's Republic of China and the other countries of the Pacific Ocean—including, on the one hand, India and Indonesia and, on the other, Australia and New Zealand—and by its present and future position in relation to the United Nations. Problems arising from this particular situation will not be dealt with in detail in this report; it is, however, necessary to bring into relief certain aspects of that position, for general guidance, so that the question of relations between Japan and the EEC should not be looked at from too exclusively a European angle or from a purely commercial viewpoint. In addition, this information should make it possible to form an indirect idea of the aims and political consequences of a trade agreement between the EEC and Japan.

Japan's foreign policy is laid down in the Constitution itself. This includes, in particular,

⁽¹⁾ Since then, this average fell again by one half.

⁽²⁾ Resolution in *Official Gazette* No. 61, p. 1279/63.

⁽³⁾ Common Customs Tariff, Chapter 69; *Official Gazette* L 172/69, page 253, et seq.

⁽⁴⁾ *EEC Bulletin* No. 8/62, p. 18.

⁽⁵⁾ *Official Gazette* No. 71, p. 1273/61.

⁽⁶⁾ Not published.

⁽⁷⁾ Doc. I/COM (64), 52. Final of 26 February 1964. Memo to Members of 6 May 1964.

⁽⁸⁾ The *United Kingdom*, too, is at present giving close attention to its trade relations with Japan.

⁽⁹⁾ In March 1970, a world exhibition will be held for the first time in a country of Asia.

highly restrictive provisions regarding the country's armaments; hence defence expenditure is only 1 per cent of the national income. These constitutional points should of course be borne in mind in dealing with this report.

10. From a political viewpoint, relations between Japan and the United States are dominated at the moment by the question of the eventual return to Japan of Okinawa (and the other Ryukyu Islands). From a legal viewpoint, the question to be determined is whether the Treaty of Mutual Co-operation and Security signed by the United States and Japan in 1960—a highly controversial document at the time—will be extended.

Under the agreement concluded between President Nixon and Prime Minister Sato on 21 November 1969, Okinawa will return to Japan in 1972 while, meantime, all American nuclear weapons will most probably be withdrawn. The Security Treaty will be renewed and extended to the Ryukyu Islands. American bases (of which there are about 60 in Japan proper) will be retained.

This agreement is of considerable importance with regard to security in the Far East as it affects not only Japan but also South Korea and Taiwan (Formosa), particularly in view of the fact that the British are due to withdraw from Malaysia and Singapore in 1971.

For the time being the Japanese Government is not allowed to take over from the United States military assignments in the Far East and can, therefore, confine itself to contributing to the area's economic development.

This agreement enabled Prime Minister Sato's Liberal Party to strengthen by about 5 per cent its majority in the elections held on 28 December 1969. It is to be expected, however, that opposition from the Left will violently oppose approval of the treaty.

In addition, it should be noted that with regard to *trade policy* the American-Japanese trade balance will show, for summer 1969, a surplus of about \$1,500m⁽¹⁾ in favour of Japan, while American economy has recently been showing signs of stress.

11. In July 1968 Japan signed with the USSR a barter agreement for the exploitation of Siberian wood; this was accepted by Japan (with the exception of a 20 per cent payment in cash) as a counterpart for the supply of grubbing equipment (for about \$130m).

Through this agreement Japan will initially endeavour to pave the way for the return of the Kurilskie Islands. As for the Soviet Union, its aim is to deflect Japanese trade—which, at the moment, is essentially directed towards the United

States—whilst trying at the same time, through closer links with Japan, to consolidate its position *vis-à-vis* the People's Republic of China⁽²⁾. The agreement in question shows a further improvement in relations between Japan and the USSR. The improvement began in 1960 as a result of the tension between China and the Soviet Union. In addition, as part of the development of Siberia, the USSR propose to sell to Japan petroleum, natural gas, copper, coal and iron ore in exchange for the supply of pipelines and plant for the port of Nachodka (near Vladivostok).

In general, Japan takes a more reserved attitude than the Soviet Union in this matter in order not to prejudice its own relations with the People's Republic of China. While the treaty concluded in 1950 between the Soviet Union and China is of no relevance now, the fact remains that it was originally directed against Japan.

12. An unofficial agreement was signed in 1962 with the *People's Republic of China*: this led to what is commonly known as the 'Commerce Memorandum'. It was renewed at the beginning of 1969 but its scope was reduced. On the Japanese side, there is a sort of pragmatic objectivity whereby business and politics are treated separately, Japan's main interest being in a Chinese market of about 700 million people which it regards more as an outlet than as a competitor. China, for its part, seems to be rather favourably inclined towards establishing diplomatic contacts with Japan. However, it should not be expected that relations in the proper sense of the word will shortly be established between these two countries, especially as, in theory, they are still in a state of war and Japan does not recognize the Chinese *régime* set up in 1949⁽³⁾.

In short, relations between Japan and the People's Republic of China may be described as an effort on both sides to avoid anything that might raise tension to a breaking point.

Taiwan, on the other hand, signed a peace treaty with Japan without even asking for compensation. Hence relations between the two countries are good⁽⁴⁾.

13. *Australia* is, after the United States, Japan's most important trading partner. In fact, the bulk of Australia's exports goes to Japan.

Japan imports from Australia 30 per cent of its wool requirements, 20 per cent of its iron ore requirements and 40 per cent of its coke requirements. The corresponding figures for Australia are: 38 per cent, 88 per cent and 97 per cent respectively. Japanese exports to Australia mainly consist of

⁽²⁾ Far Eastern Economic Review of 10 October 1968.

Nouvel Observateur of 23 June 1969.

⁽³⁾ The Japan Import-Export Bank does not grant, in principle, credit facilities for trade with the People's Republic of China.

⁽⁴⁾ *Neue Zürcher Zeitung* of 11 April 1969; *Financial Times* of 22 September 1969.

⁽¹⁾ 1968 \$1,100m; 1972 (forecast): \$3,000m.

industrial products. In addition, Japan takes part in the construction of Australian harbours and trans-shipment plants for coke and ores⁽¹⁾.

Japan takes an active interest in *Indonesia* and its oil which is in great demand for its low sulphur content and, in addition, can be conveyed by a far less vulnerable route than through the Strait of Malacca. Japan buys Indonesian wood in exchange for which it provides financial and technical assistance, essentially in connexion with rice cultivation and fisheries⁽²⁾. Trade with *Thailand*, *Malaysia* and the *Philippines* is quite extensive too.

As for relations with other countries in Asia and the Pacific Ocean, Japan hopes, owing to its Constitution, to be able to restrict its share in the setting up of regional military blocs to supplying civilian personnel and technical know-how.

It may be anticipated that relations between Japan and Australia will increase still further in future. Various forms of intensive co-operation between the United States, Australia and Japan will shortly emerge in the Pacific area.

14. In view of its economic position in the world today, Japan has been endeavouring for some time now to play a more important part in the United Nations⁽³⁾ and, in particular, to obtain a seat on the Security Council and the Geneva Disarmament Conference. Japan would also like Article 107 of the Charter to be repealed. This provides for the possibility of certain measures being taken against 'former enemy countries'⁽⁴⁾. In case Japan were to be called upon to play a greater part in the United Nations, it could, by virtue of its present Constitution, contribute to the financing of the United Nations but not to the setting up of international police forces⁽⁵⁾.

15. *With regard to development* Japan is extremely active in the context of ASPAC and the Asian Development Bank (Manila); it created the Private Investment Company for Asia which includes 112 world concerns and whose activities extend to all the developing countries⁽⁶⁾. In 1968 Japan contributed \$1,000m towards development aid.

Japan's foreign policy aims at acquiring a position of independence whilst maintaining good relations at once with the United States, the USSR and the People's Republic of China.

c) *General outline of Japan's economy and external commerce, and its trade relations with the EEC*

16. Some documentary and statistical data may be useful to the reader at this stage of the report. It should first be recalled that Japan's social structure and, consequently, its production process, are completely different from the Western pattern. An essential feature of Japan's social structure is, for example, the sense of identification of all employed people with their employers' interests. Economic life rests, therefore, on the almost total immobility of labour. This phenomenon, along with a very high investment rate⁽⁷⁾, which enables industries to acquire sophisticated equipment and have a very extensive organization may account, to a large extent, for the successful part played by Japanese industry on world markets. In figures the position is as follows:

For a wages increase of 19 to 20 per cent, there has been, in recent years, a productivity increase of 16 per cent. Export prices have risen by 0.8 per cent per annum only.

17. Japan's area is 370,000 square kilometres and its population exceeds 100 million.

Japan's population trebled in the last hundred years. Since 1960, birth control measures have markedly reduced the disquieting demographic upsurge of the beginning of the century.

i) *Distribution and standard of living of the population*⁽⁸⁾

The population is employed as follows in the main activity areas:

Farming and fisheries	19 per cent
Industry	35 per cent
Services	46 per cent

With an annual per capita income of about \$1,350 in 1968 the Japanese standard of living is halfway between that of the countries of Europe and that of the other Asian countries. Although Japan is third since 1968 on the ladder of world industrial powers, it is only in the twentieth position as regards national income (just above Italy). Japan expects to reach the highest per capita income in the world in 1988.

From 1950 to 1968 the country's gross national product increased almost fourfold; from 1947 to 1968 the annual real per capita income rose by 8.4 per cent.

⁽¹⁾ *Oriental Economist*, July 1969. Thus, the Bank of Tokyo supports an industrial group for the development of Australia's economy.

⁽²⁾ *Financial Times* of 22 September 1969.

⁽³⁾ It now ranks sixth in world trade and will shortly go up to third place.

⁽⁴⁾ The USSR asked for this Article to be applied against the Federal Republic of Germany (which is not a member of the United Nations) during the crisis in Czechoslovakia in August 1968.

⁽⁵⁾ *Japan Times* of 15 March 1969, *Eastern Economic Review* of 20 March 1969.

⁽⁶⁾ *Eastern Economic Review* of 20 March 1969. In addition Japan took part in the GATT-UNCTAD Trade Promotion Group.

⁽⁷⁾ \pm 33 per cent of Japan's national income; the investment rate in the United States is 16 per cent and in France 15 per cent.

⁽⁸⁾ The statistical data quoted in this Chapter was kindly supplied by the Japanese Mission to the EEC.

With the exception of the 1965 recession year (5 per cent), the gross national product has risen every year by 10 to 12 per cent; it now (1969) amounts to \$137,000m viz. 18.7 per cent more than in 1968, the third largest figure for the whole world, after the United States and the USSR.

Gross national product (in million \$)

1958:	26.7
1968:	115.5

ii) *General economic situation*

The reasons for this unprecedented expansion can only be given in outline: the people of Japan are characterized, as just mentioned, by their sense of discipline, their industriousness and adaptability. After the war, the Japanese Government pursued a very active expansion policy by giving special attention to advanced sectors and encouraging technical and scientific investments in preference to private consumption expenditure. Private enterprises combine patriarchal control with modern management methods and rational organization of production. In its general control of the economy, Japan combines market economy principles with long-term planning to an extent that is unparalleled in any other country.

While Japan's economic policy managed to remain within the 'magic square' (growth, price stability, full employment, balance-of-payments equilibrium), it has, however, as we have seen, given more emphasis than other countries to growth. Since the beginning of 1950, Japan's gross national product (GNP) has increased every year by about 10 per cent, that is twice the Community's rate. The decisive factor of that expansion is the very marked development of industries regarded as leading sectors in world economy, in particular the metal conversion industry and the chemical industry. The motor car industry, which is the key industry of modern economy, could serve as an example to many countries: in 1958 the EEC produced 384,000 commercial vehicles, i.e. three times more than Japan (138,000); in 1968, on the other hand, Japan produced three times more (2m) than the Community (634,000). Production of other vehicles shot up in Japan from 50,600 units in 1958 to over 2m in 1968, while in the EEC it went up from 2.6 to 6.3m. If we extrapolate present growth rates, Japan will be, in less than ten years' time, the first motor car manufacturer in the world.

Along with the faster economic growth there has been a relatively more pronounced inflationist trend in Japan than in the other main industrial countries. It is, however, worth noting in this respect that the lesser increase in the purchasing power should be mainly ascribed to a particularly fast rise in consumer prices (index 100 in 1963; 172 in 1968), while the indices of importance for Japanese exports to world markets (production

prices, wholesale prices, terms of trade) have increased at the same rate or possibly at a slightly lesser rate than the corresponding indices for the Community. The reason for this is essentially the remarkable discipline over salaries and wages. Hence, in the last ten years the nominal increase in gross hourly salaries has not been greater than the increase in work productivity.

This development has put Japan in an advantageous position on the world market concerning manufacturing costs for a number of products and, as a result, Japan's balance-of-payments position improved considerably in the course of the past few years. At the end of the second world war Japan, like other developing countries, had to give up imports of consumer goods in favour of raw materials and essential capital goods for the reconstruction of its industries. This was necessary in order to ensure the country's balance-of-payments equilibrium. Since about 1960 there has been a growing surplus in Japan's current balance of payments. This surplus—essentially due to the fact that exports grow faster than imports—totalled \$871m in 1964, \$2,000m in 1965 and 1966, \$1,100m in 1967 and over \$3,000m in 1968. The overall balance of payments, which has been showing a slight surplus since 1964 (except for 1967), reached in 1968 the enormous surplus figure of \$1,600m. Japanese currency reserves rose from \$1,900m in March 1968 to \$3,200m in 1969.

iii) *Prospects*

The aim which the present Japanese ten-year plan (1960-1970) had set itself was to double the gross national product; this meant an average annual growth of 7.2 per cent.

The plan was based on the following estimates:

	Initial period 1956-1958	Expected results for 1970
Population (in 1,000)	91,110	102,220
Individual income (in yens)	87,736	208,601
Mines and industries (per cent)	100	431
Farming, forestry, fisheries (per cent)	100	144
Energy (in 1,000 tons of coal)	131,815	302,760
Imports (in \$1 m)	2,549	8,080
Exports (in \$1 m)	2,687	8,485

Reality, in fact, exceeded all expectations, since the figure for individual income has been doubled.

iv) *Agriculture*

The cultivated area covers 15 per cent of the overall area. Intensive cultivation is essential to feed the population.

The main crops are: rice, vegetables, fruit, tobacco, tea, mulberries (for silkworm breeding) and certain types of cereals.

Agricultural production is not sufficient to feed the population. In addition to exports, fisheries partly make up for the insufficient agricultural production. 1,500,000 fishermen supply 45 kilos of fish per annum and per inhabitant.

Despite the increase in production, agriculture's share in the national income shows a constant falling off.

Main agricultural products

	(in 1,000 tons)	
	1958	1967
Rice (husked)	11,993	14,453
Cereals	3,804	2,241
Vegetables	9,596	14,689
Fruits	2,786	4,704
Meat	506	1,185
Eggs	427	1,173
Milk	1,579	3,662
Fish	5,163	7,316
Sugar beet	910	1,984
Sugar cane	228	854
Tobacco	138	209
Silk (cocoons)	117	114
Tea	75	85

v) *Industry*

Japan's subsoil resources are poor. Its only ores of value are copper, manganese and sulphur. The country only produces one-fifth of the iron ore used by heavy industry.

Energy sources are scarce; oil production is very low; coal mines are scattered and difficult to operate (none of them has large reserves and there is a complete shortage of anthracite and coking coal). A special effort is being made for hydro-electrical development.

In spite of these serious gaps, Japanese industry has grown considerably. Highly integrated and concentrated in large industrial concerns, it has gained a major position on nearly all world markets. Quantity production covers not only products requiring average technical knowledge but also computers, for example. Since 1968 Japan ranks first for shipbuilding and second for motor car manufacture, computers, television sets, cement, rubber, textile fibres and plastic materials⁽¹⁾.

⁽¹⁾ In spite of the extensive industrialization, there are still large numbers of small craft works which manufacture lacquer, toys, china, silk goods and sundry objects.

The main industries are:

Steelworks

Shipbuilding

Motor cars

Petro-chemical products

Electrical engineering and electronics

Mechanical engineering

Textiles and dyes

Cotton textiles

Synthetic textiles

Japan's sharp industrial expansion remains largely dependent, however, on external markets for its raw material imports; 10 per cent of its production is exported.

Main industrial products

Product	Units	1959	1967
Unworked steel	1,000 t	16,628	66,893
Rolled steel	1,000 t	12,099	50,510
Coke	1,000 t	10,188	46,569
Chemical products	1,000 t	10,554	35,414
Textiles (yarns)	1,000 t	743	1,719
Oil	1,000 t	405.6	1,639
Radio sets	1,000	10,025	30,189
Cameras	1,000	1,844	4,063
Motor cars	1,000	78	2,057
Toys	1,000 doz.	25,328	30,474

Industrial production indices

	1958	1967
General	100	350
Mines	100	367
Electricity and gas	100	278
Manufacturing industries	100	130

vi) *Japan's external commerce and its trade relations with the EEC (1958-1968)*

In 1968 Japanese exports amounted to \$13,700m which put the country in fourth position (the EEC being regarded as a single unit) among the chief exporting countries. As Japanese exports increase almost three times as fast as total world exports (the average annual growth rate for Japanese exports from 1948 to 1968 was approximately 25 per cent),

Japan constantly improves its position and the view is now gaining ground that Japan might become in the foreseeable future the world's greatest exporting country.

With 10.7 per cent of the GNP in 1968⁽¹⁾ external trade makes an important contribution to Japan's economy. This is now directed towards exports and corresponds very nearly to the economy of the Community (for trade with third countries only). A more marked direction is only to be found in certain EFTA countries.

The breakdown of Japan's external trade into product categories clearly shows the commercial structure of a highly-developed industrial country that is largely dependent on imported raw materials: nearly 33 per cent of exports cover semi-finished and finished products, while 40 per cent of imports cover raw materials, excluding mineral fuels. These, in turn, represent 19.3 per cent of total imports.

With regard to the geographical distribution of Japan's external trade, it should be underscored that 31.4 per cent of exports and 26.6 per cent of imports relate to the United States. About 29 per cent of exports and 16 per cent of imports concern South East Asia where Japan is particularly anxious to consolidate its economic and commercial position. 12.5 per cent of exports are directed towards Western Europe, of which 5.6 per cent go to the EEC. Japan's position is even weaker in the Community's external trade; in 1968 it represented 1.8 per cent of the EEC's total exports to third countries and 1.9 per cent of its imports.

Imports and exports in 1968 totalled \$652m and \$636m respectively. As compared with the previous year, there was a further large increase of imports from Japan (+21 per cent) in 1968. The value of these imports (\$652m) is almost equal to half the quantity of imports from Switzerland and Sweden.

The trade balance with Japan is generally even. Following a surplus in 1967, it showed a slight deficit in 1968 (—\$15m).

Japan is thus still a *comparatively unimportant* trading partner, the volume of trade between that country and the EEC being smaller than the EEC's trade with Spain, Denmark, Canada, Switzerland or Sweden. But Japan is, after Libya, the country which developed most its trade with the Community. From 1958 to 1968 Japanese imports increased by 458 per cent and exports by 359 per cent. These figures should have been larger still had there not been obstacles to trade on either side.

EEC imports from Japan

80 per cent of imports cover *manufactured products* which, in 1958, represented only two-thirds of imports. The increase in the share of industrial products entailed a reduction in the share of primary products and, in particular, raw materials which fell from 20 to 5 per cent of imports. *In terms of value* imports have shown a very *limited* increase since 1958 (from \$24m to \$34m). The position is different in regard to foodstuffs, where imports rose by 318 per cent as a result of the *very much larger* purchases of fish and vegetable preserves.

Imports of *chemical products* recorded a spectacular increase of 852 per cent but remain low in terms of value (\$43m in 1968). The rise was even greater for plant and transport equipment (1,000 per cent). These relate in particular to telecommunication equipment, machinery for the textile industry and small electrical appliances or apparatus. With regard to transport equipment, purchases of ships form the largest part. However, sales of Japanese motor cars have also increased very markedly during the last two years. The share of machinery and transport equipment is now 15 to 26 per cent of total imports.

Miscellaneous manufactured articles amount to half of all imports from Japan. Purchases of articles of that category increased by 510 per cent. Imports of articles which have considerably increased are: photographic and precision instruments, iron and steel products, fine pearls, textile products and, to a lesser extent, toys.

EEC exports to Japan

Industrial products cover *more than 85 per cent of exports*. The development of exports has been much more steady than that of imports in the sense that, with the exception of the group of miscellaneous manufactured articles, all categories of goods have shown identical rates of growth.

Sales of *foodstuffs* increased by 330 per cent but their proportion in relation to total exports remained unchanged at 9.4 per cent. The range is varied but there is an increase in sales of cocoa and concentrated milk products. Deliveries of *raw materials* went up by 175 per cent but are only less than 3.5 per cent of exports.

While in most countries sales of products in the 'miscellaneous manufactured articles' group developed less rapidly than those of chemicals, machinery and transport equipment, *a distinct feature of exports to Japan has been the exceptional development of sales of articles of that group*. There was a remarkable surge in the rate of growth of these sales which reached the figure of 753 per cent, the share of these products in total exports having gone up from 12 per cent in 1958 to 23 per

⁽¹⁾ This percentage is the same as for France but only one-third of that of the Benelux countries.
FEC (excluding intra-Community trade): 9.3 per cent; United States: 4.9 per cent.
Japanese exports represent, at the same time, 12 per cent of the overall world trade.

cent in 1968. Expansion was quite remarkable, too, in 1967 when sales went up by 75 per cent as compared with 1966. This was due to the development in sales of *non-ferrous metals, diamonds, precision instruments* and a very large number of *consumer articles*. In 1968, however, there was a drop in sales of 30 per cent as compared with 1967.

Despite a less marked progress (363 per cent), the machinery and transport equipment group

continues to provide the largest part of exports to Japan. However, this proportion *remains at 37 per cent*. During the last ten years, the Community increased its sales of office equipment, machinery for the textile industry or other specialized industries, and a variety of electrical appliances and motor vehicles. Sales of *chemicals* having only augmented by 240 per cent, their share in exports dropped from 35 to 25 per cent. Special reference should be made to sales of *pharmaceuticals*.

Japan's main exports to the EEC⁽¹⁾

(in \$1,000)

	1960		1968	
Electrical machinery and appliances	7,027	(id.)	75,298	(123,757)
Iron and steel products	2,943	(5,813)	72,504	(70,646)
Precision instruments	9,091	(9,327)	58,376	(51,653)
Textiles	21,939	(22,264)	52,825	(39,305)
Chemicals	15,639	(id.)	51,233	(44,481)
Oils and animal seeds	10,338	(id.)	...	(4,806)
Clothing	6,047	(id.)	19,430	(21,073)
Transport equipment	...	(523)	...	(48,395)
Fish	20,671	(id.)	51,425	(id.)
Fruit and vegetable preserves	5,510	(5,504)	16,582	(9,862)
Unmanufactured tobacco	3,124	(id.)	5,937	(7,736)
Silk	18,111	(id.)	1,754	(4,940)
Toys	6,035	(id.)	14,361	(26,766)

⁽¹⁾ Figures in brackets were supplied by the Commission of the European Communities.

EEC'S main exports to Japan⁽¹⁾

(in \$1,000)

	1960		1967	
Machinery, tools, transport equipment	70,607	(80,254)	274,882	(241,913)
Chemicals	68,173	(id.)	189,887	(163,558)
Foodstuffs, excitant and stimulating products (including tobacco)	10,019	(11,359)	67,084	(56,243)
Iron and steel products	5,083	(...)	...	(...)
Miscellaneous manufactured products	...	(31,680)	...	(145,613)
Raw materials	...	(11,307)	...	(...)
Energizing products	...	(854)	...	(1,166)

⁽¹⁾ Figures in brackets were supplied by the Commission of the European Communities.

Japan's external trade

(in %)

	Import		Export	
	1958	1968	1958	1968
World	100	100	100	100
EEC	4.5	5	4	4.7
USA	27.8	27.2	23.4	31.5
United Kingdom	1.8	1.9	3.4	2.8
South East Asia	—	15.4	—	27.2
Australia and South Pacific Islands	—	8	—	3.7

II—Position of trade relations between the member States and Japan⁽¹⁾

a) *Bilateral agreements*

18. On 14 May 1963 *France* concluded a six-year trade agreement with Japan. This contains the most-favoured nation clause and the safeguard clause. Inclusion of the latter clause was obtained by France in exchange for renouncing the right it had secured when Japan joined GATT to apply to that country the provisions of Article XXXV of GATT⁽²⁾.

The agreement covers 59 import quotas and 6 open quotas for imports into French overseas territories.

France is at present negotiating the renewal of the agreement.

Italy concluded trade arrangements with Japan on 29 July 1961 and 13 July 1965. These provide for certain quota liberalizations or extensions. The arrangements are valid for one year and will be tacitly renewed until further arrangements are entered into.

The *Benelux* countries have regular and successful dealings with Japan on the basis of the agreement of 8 October 1960. The Protocols of 13 February 1963 and 3 May 1966 are in force. The period for which the agreement is valid is three years each time, unless otherwise agreed; basically it is similar to the Franco-Japanese Agreement of 1963. The Benelux customs area has applied a quota system on imports of products covered by 22 tariff items and 'ex' items of the Brussels Nomenclature and, in addition, the Benelux customs area may, since the coming into force of the 1963 Protocol, apply a safeguard clause. (This clause was obtained under the same conditions as France.)

The *Federal Republic of Germany* signed on 1 July 1960 a trade agreement with Japan for a period of one year only but with the possibility of tacit renewal. This agreement is based on the non-discrimination rule of GATT; at the end of 1962 an additional Protocol was drawn up to cover products to be liberalized on 1 January 1965. The Protocol also laid down the number of quotas that would be maintained; there are 15 such quotas at present, excluding cotton textiles.

On 5 October 1962 a special convention on the importation into the Federal Republic of Germany of cotton textiles was concluded on the basis of the World Cotton Agreement; the convention

includes, in particular, import quotas in respect of these products. It has been replaced since the above-mentioned date by the agreement referred to in Chapter II.

19. To sum up, it may be said that all trade agreements of EEC member States with Japan, which are at present in force, could have been denounced in 1969 since they all include the EEC clause of 1961⁽³⁾; this should make it easier to replace them by a single Community agreement. They include in addition a whole series of quotas for imports into the EEC. Moreover, the French and Italian agreements provide for six and seven quotas respectively for imports into Japan. The other two agreements contain a promise on the part of the Japanese authorities to issue, for certain products, fairly liberal import licences. Only the Franco-Japanese and Benelux-Japan agreements (which Japan approved when, in 1963, these countries renounced the right which they were retaining since Japan joined GATT, to resort to Article XXXV which provides for the possibility of not applying GATT provisions to trade with a given partner) contain a safeguard clause (Protocols of 14 May and 13 February 1963).

The four agreements referred to above are undoubtedly very similar to one another in various respects, particularly with regard to import quotas. However, owing to the fact that one of them only has a safeguard clause, *intra-Community trade would remain subject to obstacles if these agreements were not replaced by a Community agreement.*

b) *Restrictions on mutual trade*

20. As we have seen earlier on, trade agreements between Japan and the EEC are still largely governed on either side by quota systems and further liberalization must remain one of the very first aims of future negotiations.

In order to illustrate this aspect of the situation Annex I to this report shows the present position regarding the main quantitative restrictions applied by the EEC⁽⁴⁾.

The full list of products subject to a quota system from one or several member States for imports from Japan comprises about 90 tariff items, 55 of which are four-figure items and 35 'ex' items.

⁽¹⁾ See Enclosure V of the report by the Commission to the Council of 28.3.69 (Sec (69) 1175 fin.); Note to Members PE 22 989.

⁽²⁾ Some 35 member countries of GATT still invoke the provisions of Article XXXV. This gave rise at the end of January 1970 to an official protest from Japan, which is threatening to slow down liberalization measures if this situation is not changed.

⁽³⁾ By authorization of the Council dated 1 July 1969, the agreements of the Federal Republic, France and the Benelux countries with Japan may be renewed; this does not apply to the Italian 'arrangement' which is not an official trade agreement.

⁽⁴⁾ In this respect a distinction should be made between discriminatory and non-discriminatory restrictions, i.e. between restrictions that apply only to imports from a given country (e.g. Japan) and those that apply, *erga omnes*, that is, to all imports whatever the origin of the goods. We find these two types of restriction in the case under consideration.

Annex I mentions discriminatory quotas only. It should be observed that abolition or, at least, reduction of discriminatory restrictions is prescribed by Articles I to XI of GATT but that the bilateral agreements concluded with Japan by France and the Benelux countries when these renounced their right to apply Article XXXV of GATT do not run counter to these principles.

In other words, it may be said that about two-thirds of non-liberalized imports into the Community are from Japan⁽¹⁾.

This fact clearly demonstrates the extent to which the continued liberalization⁽²⁾ of Community imports depends on the laying down of more precise regulations for Japan.

21. Conversely, Japan has applied an import quota system for about 120 tariff or 'ex' tariff positions. Admittedly, these 120 items include about 10 which, for special reasons, are explicitly embodied in bilateral agreements with Community countries⁽³⁾, but in principle these quotas are valid 'erga omnes'. As a matter of fact, Japan intends to liberalize independently half of these quotas by the end of 1971; it has already fixed most of the items that are to be liberalized⁽⁴⁾.

22. The latest report on the implementation of Article 115 of the EEC Treaty⁽⁵⁾ indicates the particular Japanese products that are excluded from Community treatment.

A comparison between quota products and those for which recourse is had in the Community to Article 115 of the EEC Treaty shows that in all cases (with the exception of Item 20.02—asparagus) where Article 115 is applied, a quota system already exists. These are, therefore, products whose 'sensitivity' can hardly be in doubt.

c) Sensitive products

23. Certain products play a special part in the trade relations between the Six and Japan. These are:

- Cotton textiles
- Ceramic products
- Footwear
- Umbrellas
- Cutlery
- Ball-bearings
- Non-ferrous metal
- Motor vehicles
- Coal and steel
- Nuclear energy

Cotton textiles

24. At the close of the discussions between delegations of the member States and the Executive which began in March of this year, the member States reached the conclusion, at the end of June, that conditions were right for starting negotiations on the basis of Article 4 of the long-term agreement on world trade in cotton textiles (World Cotton Agreement). The negotiations led to the signing on 22 October 1969 of bilateral agreements of a conventional type between the member States and Japan. These agreements are valid until 30 September 1970⁽⁶⁾. They provide for a wider opening of the six markets and a more liberal administration, by product, of quotas applicable to Japanese cotton textiles.

The following quotas were agreed:

Federal Republic of Germany	6,000 tons
France	2,650 tons
Italy	1,600 tons
Benelux	1,200 tons
<hr/>	
Total	11,450 tons

Initially, the negotiations were jointly conducted by the member States and the Executive with Japan. They dealt with the total volume of quotas to be authorized and the way they were to be controlled. Subsequently, the volume of each quota was fixed in the six capitals.

The agreements came into force retro-actively on 1 October 1969⁽⁷⁾.

Ceramic products

25. With regard to the products in Chapter 69⁽⁸⁾ of the Brussels Nomenclature, the Executive submitted to the Council, in April 1969, a proposal for a uniform Community import system (excluding State-trading companies) for a fuller implementation of the regulations on quantitative import quotas, the common liberalization lists and the special procedure for importing certain products from certain third countries⁽⁹⁾.

We are thus confronted with one of the first cases of organization according to sector of 'a common import policy'; in practice, its geographical field of application remains restricted to Japan and Hongkong. Three of the four EEC customs areas now apply restrictive measures in this respect; Japan has undertaken to restrict its exports to the Federal Republic of Germany (self-limiting agreements).

⁽¹⁾ Imports from State-trading countries are also subject to an extensive quota system.

⁽²⁾ The real effect of quotas is, naturally, only determined in part by their number; account must also be taken of their volume and of the question whether the market concerned can absorb a greater volume of imports.

⁽³⁾ See Annex II of this report.

⁽⁴⁾ This will raise a problem for the Community as relations between Japan and Italy are not, to a certain extent, quite normal yet.

⁽⁵⁾ Official Gazette No. C 95/63; Position as at 1 June 1969; see Annex III of this report.

⁽⁶⁾ See the agreements concluded with India and Pakistan, Official Gazette, L 238/69, p. 8. The World Cotton Agreement also expires on 30 September 1970.

⁽⁷⁾ Decision on the validity period of these agreements: Official Gazette L 281/69, p. 26.

⁽⁸⁾ As well as an item of Chapter 85—ceramic insulators.

⁽⁹⁾ Regulations No. 2041, 2043 and 2054/68; Official Gazette L 303/68. (800 tariff items are at present liberalized by the Community, 297 are not).

It is intended to *liberalize*⁽¹⁾ imports of products in Chapter 69 covered by such a measure, to place other products under some kind of ‘*supervision*’ and to make the remaining products liable to *quotas*. As this system could lead to a unilateral increase of import opportunities for Japan, the Executive propose to liberalize only in so far as restrictive provisions on certain products require compensation within the Community; in other words, Japan’s position as an importer would generally remain unchanged. In case this liberalization were to be pursued, the Community would open negotiations with Japan in order to secure equivalent concessions. As exports of these products are important for Japan, this procedure has some chance of success.

The proposals of the European Commission provide for the following measures in respect of the various products concerned:

- i) Setts and paving tiles (Items 69.07 and 69.08)

liberalization of common earthenware products (except for quotas applying to Japan) in 1,000 sq.m.

Federal Republic of Germany	3,325
France	42
Italy	20
Benelux	43
Community reserve	180
	<hr/>
	3,610
- ii) Porcelain or china tableware

Quotas for china and earthenware imports (Items 69.11 and 69.12 c) originating in Japan, in tons

Federal Republic of Germany	2,160
France	225
Italy	1,980
Benelux	2,205
Community reserve	730
	<hr/>
	7,300

Typical oriental pottery (in tons)

Federal Republic of Germany	1,600
Community reserve	160

—‘supervision system’ for any Japanese ceramic crockery other than china (Item 69.12 A, B and D); and for any other crockery originating in Honkong;

—for products of another origin an automatic import licence system has been suggested.
- iii) Statuettes

‘supervision system’ for Japan: import licences automatically granted for products of a different origin.

⁽¹⁾ Items 69.01 to 69.06 and 69.14 are already liberalized.

iv) Insulators

see (iii)

From a legal viewpoint, the liberalization should be carried out by means of ‘recommendations to the member States under Article 111,5 of the EEC Treaty. Import quotas and the ‘supervision system’ should be fixed by means of regulations.

Footwear

26. Proposals for an entirely independent import system were put forward in July 1969 (Items 64.01 and 64.02).

These cover:

the liberalization of imports of leather, rubber and plastic shoes

quantitative quotas for Japan (1,579,000 pairs) and Hongkong (7,353,000 pairs) for textile shoes with rubber or plastic soles

Quotas for Japan (in 1,000 pairs)

Federal Republic of Germany	990
France	205
Italy	5
Benelux	220
Community reserve	159
	<hr/>
	1,579

the introduction of a ‘supervision system’ for shoes with rubber soles and for indoor shoes originating in Japan and Hongkong.

Umbrellas

27. At the same time, it was suggested for Items 66.01 and 66.03 of the Brussels Nomenclature:

to liberalize imports whilst introducing:

a ‘supervision system’ for terrace parasols and parasol-tents originating in Japan and Honkong

a quota system for umbrellas and parasols originating in Japan (3,672,000) and Honkong (2,500,000); distributed as follows for Japan (in 1,000 units)

Federal Republic of Germany	2,625
France	55
Italy	32
Benelux	660
Community reserve	300
	<hr/>
	3,672

Cutlery

28. This proposal concerns table knives as well as stainless steel spoons and forks (Items 82.09 and 82.14 A) and implies:

the liberalization of these items, together with the introduction of

a quota system for imports originating in Japan, fixed as follows (in tons):

	Knives	Spoons and forks
Federal Republic of Germany	400	1,570
France	30	190
Italy	10	10
Benelux	210	540
Community reserve	70	260
	<hr/> 720	<hr/> 2,570

Ball-bearings

29. Italy applies a quota system on imports of this product (Item 821.62) from Japan, while France and the Benelux countries are in a position to resort to a safeguard clause. As Japan exports only certain types of ball-bearings, at prices which are only about 65 per cent of Community prices (imports from Japan correspond to 12 per cent of Community production), the European Commission suggested:

a liberalization of this tariff item, combined with

a 'supervision system' for imports from Japan.

Motor cars

30. There is, in the context of the Kennedy Round of negotiations, a problem which has not yet been settled: Japan declared its readiness to apply the 50 per cent tariff reduction, agreed to by all, to its motor car imports on condition that Italy accepted to import more Japanese motor cars⁽¹⁾. As Italy has not done so, Japan only applies a tariff reduction varying from 30 to 40 per cent.

Non-ferrous metal

31. Japan and the Community have a comparable position on the world market of non-ferrous ore—that of large importers. Their main concern at the moment is that of obtaining supplies of copper ores.

In 1964, as a result of growing demand, supplies of lead and zinc ores became difficult to secure. Negotiations were started and close co-operation, on the basis of private agreements, begun between Japanese and EEC copper-smelting works, in particular in connexion with interventions on the London ore market. The talks between the two parties dealt with the question of supplies, the opening of

new mines and price stabilization. It was subsequently decided to hold these talks at regular intervals⁽²⁾.

Coal and steel

32. To give a full picture of the position and to bring into relief Japan's importance in the economic context, we would refer to the agreement concluded on 11 May 1965 between the ECSC (High Authority) and Japan. The agreement was to the effect that joint talks would be held on the situation in the iron and steel and mining industries, the consumption of the various products, supplies of raw materials and the development of technical and scientific research⁽³⁾.

Since the merger of the three Executives, these six-monthly consultations with the Japanese Government have been pursued by the European Commission.

It should be borne in mind here that in order to manufacture its iron and steel products, Japan has to import large quantities of ore and coal.

Lastly, it should also be observed that the Shin Nippon Seitetsu Company which resulted from the merger of the Yawata and Fuji firms is now the world's largest steel concern after United States Steel Corporation.

Nuclear energy

33. In its 7th General Report (1963/64), the former Euratom Commission refers to proposals made by Japan in 1962 for closer co-operation in the nuclear field. A project for an arrangement in respect of the exchange of information was drawn up⁽⁴⁾ but never carried into effect. The contacts that have taken place were not of an 'institutional' nature.

The recent association (in May 1969) of a consortium of 23 Japanese firms with the British Nuclear Power Group shows that Japan is not against co-operation in the nuclear field. This agreement covers production in Japan and the sale of gas-cooled reactors.

According to some sources, Japan has also recently developed a technique of isotope separation based on the ultra-centrifugation method.

⁽¹⁾ Italy should have authorized the importation of 1,000 cars in 1968, 2,500 cars in 1969 and should have entirely liberalized this tariff item from 1970.

⁽²⁾ Attention is drawn to this point because the EEC Commission had previously submitted a 'memo' to the Council on the lead and zinc question. The memo suggested the immediate creation of a common market for these products (from which the Italian market would be isolated, under Article 226 of the EEC Treaty), as well as a reduction of the Common Customs Tariff for these two raw materials and a general liberalization (except for lead and zinc from State-trading countries). (Doc. I/III/COM (63) 23 déf. of 13.2.63).

The proposed measures never came into force.

⁽³⁾ 15th ECSC General Report, para. 54.

⁽⁴⁾ EAEC 7th General Report, para. 83.

III—Respective standpoints in regard to negotiations

a) *Japan's position*

34. Japan's interest in establishing closer trade relations with the EEC is both political and economic

The political interest can be accounted for by the fact that Japan has risen to the rank of the most economically powerful nations and wishes, consequently, to establish links with the other great powers of the world. Moreover, after having mainly turned to the United States in the post-war years, Japan is now endeavouring to diversify its relations with other countries.

Japan's main trading partners are the United States, Australia and a number of South East Asian countries (the westernmost of which is Burma), Europe and the Soviet Union. Japan's total exports amount to about \$13,700m. Only 5.6 per cent of that figure, i.e. \$775m, relates to exports to the EEC. In view of its high annual economic expansion rate (15 per cent approx.), Japan tends to widen the scope of its export possibilities in all sectors. It should be observed in this respect that the Japan/USA trade balance shows a surplus of \$1,500m in favour of Japan. This is a matter about which the two parties feel concerned, all the more so as the USA, which takes up one third of Japan's exports, may have to restrict its imports in future as a result of the general position of its balance of payments.

35. Just as the Community does with regard to Japan, the latter fixes quotas for its imports from the EEC countries. A particular feature of these quotas is that they are *overall* quotas, i.e. quotas which apply irrespective of the origin of the goods. This explains, for example, why the negotiations recently initiated (Spring 1969) between Japan and the Benelux countries have not been very successful: Japan is unable to offer any counterpart to possible concessions from the Benelux countries⁽¹⁾.

This means, in principle, that Japan could hardly make a concession to a given partner in regard to increased imports. It would then either have to increase the overall quota (which, however, gives no assurance to the partner that it will get the benefit of the additional import possibility thus created) or replace the overall quota by quotas for all its supply partners (in which case the overall nature of the quota would no longer apply)⁽²⁾.

36. About 80 per cent of Japan's trade is handled by eight trade organizations (shoshas); they act on behalf of small and medium-sized companies which have no direct agents abroad. These organizations tend to remain faithful to their traditional suppliers. Furthermore, they are connected with the big banks to which the groups of companies (zaibatsus) in turn are linked⁽³⁾. The inter-penetration of interests is all the more extensive as Japan's economy is highly integrated. Account must, therefore, be taken of the fact that the spheres concerned in Japan have some influence over the import policy; in any case, the number of economic circuits is smaller than in the West.

Import licences are issued by the public authorities. The procedure is somewhat complicated and there is room for improvement, at times, in the announcements relating to the opening of quotas or to the department(s) responsible for issuing licences⁽⁴⁾.

These peculiarities may only constitute minor drawbacks when imports are made by Japanese importers; one gets the impression, however, that non-Japanese exporters seeking new openings come up against greater obstacles on the Japanese market than on other external markets. In so far as the shoshas have a wide network of connexions, they can also, of course, be quite useful in certain cases to the potential exporters.

As for the Community's chances of developing its exports to Japan, it should be observed, in connexion with the para-tariff and non-tariff obstacles referred to above, that foodstuffs and raw materials would be the main products exported; finished and semi-finished products constitute only one third of total Japanese exports. In addition, the present situation on the world market is such that not only the EEC, but also Britain and the USA are sparing no effort to increase their exports to Japan. The possibilities of developing Community exports to Japan should, therefore, not be overestimated⁽⁵⁾.

37. With regard to negotiations with the EEC, the Japanese Government consider that these should at least lead to the abolition of the discriminatory import quotas (i.e. the quotas which only apply to imports from Japan) referred to in the bilateral agreements concluded by the member States with Japan⁽⁶⁾.

The Japanese Government is reluctant to extend safeguard measures to all member States. The point it makes is that the two member States that had agreed to such measures in respect of their trade with Japan have only very rarely—two or three times—applied them in the past. Furthermore, there is no such clause in force in respect of Japan's very large trade with the USA. This is why Japan

⁽¹⁾ It should be pointed out that the granting of overall quotas is much more in accordance with GATT provisions than the alternative method, i.e. issuing discriminatory quotas.

⁽²⁾ It would appear that, in practice, greater import facilities are obtained by reserving a (larger) number of import licences which, after all, is tantamount to some extent to a breaking up of the overall quotas. In one particular case, however, this method can be avoided, viz. when concessions can be obtained for products for which the two parties concerned are each other's main suppliers, or when it is possible, on either side, to resort to safeguard clauses as soon as the mutual import volumes tend to show some disparity.

⁽³⁾ e.g. Mitsui, Mitsubishi, Sumitomo, etc.

⁽⁴⁾ This can indirectly cause some difficulty in regard to licences, models, etc.

⁽⁵⁾ See above, para. 17, sub. v.

⁽⁶⁾ There is no trade agreement between Italy and Japan.

would prefer to restrict the safeguard clauses to the cases provided for by GATT. *It may be assumed that it is over this particular point that negotiations will be difficult*⁽¹⁾.

The bilateral agreements concluded between Japan and individual member States contain special provisions which are not always in accordance with GATT rules. Bearing in mind all these aspects, including para-tariff and non-tariff obstacles, it may be said that neither Japan nor the member States fully comply in their trade relations with GATT's principles. In this respect, therefore, *both parties* should endeavour to pursue the normalization of conditions in the sense required by GATT. In addition, Japan is aware of the fact that it will have to give material satisfaction to the EEC if it wishes the latter to remove discriminatory restrictions and to extend the remaining quotas.

38. In connexion with the foregoing, it is also necessary to look into Japan's policy with regard to capital imports and exports and investment movements, that is Japanese investments abroad and foreign investment in Japan.

Attention should first be drawn to the problem of the yen's convertibility⁽²⁾. In this connexion, Japan insists on the fact that it must have control over certain capital exports of a speculative nature. On the other hand, there is no difficulty in obtaining foreign currency for commercial transactions. In addition, the liberalization of income gains in Japan by non-residents is practically complete⁽³⁾.

Furthermore, Japanese investors abroad have been given greater freedom of action. Since July 1969 they can invest, without any authorization, up to \$200,000 instead of \$50,000 as previously. Japan's foreign investments, from April 1968 to March 1969, amounted to \$541m.

However, the requirement of a minimum Japanese share of 50 per cent ('half-partnership') in foreign investments in Japan remains in force.

These liberalization measures are due to the fact that Japan's gold and foreign currency reserves amounted to \$3,500m at the end of 1969 and will go up to \$4,000m by the end of 1970.

b) EEC's position

39. The present position of the Community with regard to trade policy may be summarized as follows:

- i) In relation to the GATT countries the Community stands as a single entity since the completion

of the Kennedy Round of negotiations and the coming into force of the common customs tariff; this refers, of course, to trade mainly governed by customs tariffs.

- ii) The question of trade with State-trading countries is only partly settled⁽⁴⁾.
- iii) The question of trade with Japan, largely affected by quotas, can also not be regarded as settled.

The *Kennedy negotiations* have not solved the basic question of the obstacles to trade between Japan and the EEC, in other words, the removal of existing quotas on either side. The only satisfactory results achieved so far relate to tariffs.

Trade relations between Japan and the EEC⁽⁵⁾ would not be possible if the two parties did not find it of mutual interest. The attitude of both the Commission of the European Communities and the Japanese Government leaves no doubt as to the mutual resolve to start negotiations; the conclusions drawn from the recent talks (11 September 1969) between Mr. Aichi and Mr. Rey have clearly demonstrated that resolve. It should also be mentioned that unlike, for example, the State-trading countries (or at least most of them), Japan recognizes the Community as such, which will make negotiations considerably easier.

40. We have already⁽⁶⁾ examined the standpoint taken by the ex-EEC Commission at the beginning of 1960. This may be summed up as follows: achieving the customs union of the Six and, in particular, progressively abolishing internal borders and setting up at the same time a common external frontier would make it necessary to standardize import and export systems. This opinion was confirmed by the facts.

41. The customs union of the Six became a practical reality on 1 July 1968. A single customs tariff is applied at the common external frontier and internal duties have been abolished. Current efforts aim at abolishing the other duty 'components' (fiscal, health and sanitation, etc. as well as a small number of intra-Community quotas for certain agricultural products) which are still applicable on the internal frontiers. These also still operate in regard to goods covered by import systems which vary from one member country to another. In this respect we refer in particular to:

- a) quotas, and
- b) the implementation of Article 115 of the Treaty setting up the EEC (exclusion from what has been described as 'the Community treatment')

⁽¹⁾ See above, para. 49.

⁽²⁾ \$ 1 = 360 yens

⁽³⁾ On 1 September 1969 most of the restrictions on capital and income transfers of foreign firms established in Japan were lifted (on condition that these firms were established in Japan before 1 July 1963); foreign salary-earners residing in Japan, or having left the country, may now convert and transfer out of Japan 30 per cent of their blocked assets. (See also OECD, Doc. TIR (69) 5 of 26 September 1969.)

⁽⁴⁾ See, for example, Regulation No. 2045/68 and Council Decision No. 69/494

⁽⁵⁾ With regard to the attitude to Japan of the ECSC and the EAEC, see para. 32 above.

⁽⁶⁾ See paras. 1 to 8 above.

- c) application of safeguard clauses deriving (but not entirely!) from the present bilateral agreements with Japan.

42. It may be assumed from the table of present import restrictions (quotas)⁽¹⁾:

that none of the six member States have lifted import controls on goods from Japan covered by ten items of the Brussels Nomenclature; that three of the four customs areas have not liberalized these imports for nine other items.

In addition, imports from Japan are subject to quotas:

In France, for more than 30 items

In the Fed. Rep. of Germany, for more than 10 items

In Italy, for more than 50 items

In the Benelux countries, for more than 10 items.

The survey⁽¹⁾ of the extent to which Article 115 of the EEC Treaty (exclusion from the 'Community treatment') is applied shows that the Article has been invoked

by France in 1 case,

by Italy in 15 cases,

by the Benelux in 2 cases.

In three of the four customs areas of the Community, Article 115 has been applied for Item No. 69.08 (tiles and paving-stones).

It should be recalled in this connexion that the quota system and Article 115 are often applied *non-concurrently*, the two measures being complementary.

There is therefore in respect of Item No. 69.08 of the Common Customs Tariff some measure of consistency (albeit negative) in the import policy of the member States; some of these, however, are also authorized to restrict their imports from Japan for a large number of other products; in such cases the products are imported on their own initiative (i.e. not via other member States).

43. The import systems of the Six are anything but consistent, and this hampers the satisfactory working of the customs union⁽²⁾. Standardization in the sense meant here would certainly be most useful to the Community and of considerable help to Japan.

France and, above all, Italy have, up till now, always shown some reservations as to possible

negotiations with Japan. This was already their attitude to proposals made by the former EEC Commission in 1963 and 1964.

Conversely, Japan deplored the fact that Italy had been authorized, under the regulation⁽³⁾ on setting up a common liberalization list for imports into the Community, unilaterally to introduce quotas for about 50 Japanese products without having to follow the consultation procedure on the Council.

Lastly, reference should also be made here to the problem raised by imports of Japanese motor vehicles into Italy in the framework of the Kennedy negotiations⁽⁴⁾.

44. On 10 November 1969, the Council of Ministers authorized the Commission to initiate exploratory talks with the Japanese Government with a view to assessing the possibilities of starting negotiations and, hence, reaching an agreement. According to the Council, such an agreement should:

- i) increase mutual trade and, as a result, contribute to a smooth expansion of world trade;
 - ii) lead to the widest possible degree of liberalization—on a progressive and mutual basis—and to the removal of other obstacles to trade, in particular administrative obstacles.
- The Council has in mind, in this respect, the Japanese quotas which that country's balance of payments no longer warrants in its opinion, as well as the administrative import provisions, in particular—but not exclusively—those which govern Japanese import quotas and which, in practice, have also a restrictive influence;
- iii) bring about the introduction, on both sides, of safeguard clauses which would make it possible to face, if need be, serious market disturbances.

The degree of liberalization to which the Community could agree depends in practice on the extent to which this condition is met, particularly in view of the price level which the Japanese can maintain for certain products owing to the highly-integrated production methods they apply.

It is expected that the Commission of the European Communities will submit a report to the Council on the above-mentioned exploratory talks before 1 April 1970. It is also desirable that these questions be tackled as soon as possible because the present trade treaties between the member States and Japan were only extended, on 1 July 1969, until 31 December 1970.

The granting of this mandate represents in particular the first change in the attitude of France and Italy towards negotiations with Japan.

⁽¹⁾ See above, para. 20 et seq., and Annexes to this report.

⁽²⁾ This also applies to imports from State-trading countries

⁽³⁾ Regulation No. 2041/68.

⁽⁴⁾ See para. 30

IV—Concluding remarks

45. The aim of the first negotiating mandate referred to above is consequently to promote the normalization of mutual trade relations. The provisions on imports, dealt with in Chapter II and provisionally considered as independent measures, will also be discussed during the proposed negotiations.

The mandate is rather laconic with regard to the implementation on a wider scale of economic and trade *co-operation* between the EEC and Japan. Admittedly this aspect is partly embodied in the mandate. In so far as, following the general development of world trade relations, but also as a result of an EEC-Japan agreement, the pattern of world trade would be somewhat modified, the importance of the co-operation under consideration cannot be underestimated.

The European Parliament would therefore urge the Commission of the European Communities to endeavour to get this point of view accepted in the forthcoming talks, as well as by the Council.

46. As mentioned earlier on, it is anticipated that in the course of the negotiations the Japanese will, in any case, ask for a larger measure of liberalization in respect of Japanese imports into the Community. In addition, they will raise problems closely bound up with imports of certain products.

It should also be noted that, up to this very moment⁽¹⁾ the Japanese Government has not yet formally signified its agreement to the Community's negotiating mandate.

The Community will raise the question of Japan's restrictions on imports and that of extending the safeguard measures to the whole of the Community.

In any case, what really matters is that negotiations should be started so that, *in the near future, the two parties, by common consent, may gradually bring their trade relations into line with GATT's normal rules.*

47. The European Parliament feels, however, that it must also draw attention to certain other points which would certainly be apposite in a comprehensive trade agreement and, at any rate, in a co-operation agreement of the type under consideration.

Attention should also be given to questions deriving from the *conditions of competition* between the EEC and Japan, both of whom are large importers of various *raw materials* and, in particular, non-ferrous ores. A form of co-operation

should be sought which would make it possible to promote the largely similar interests of the two parties.

A comparable sector is that of Japanese *ship-building*, although the conditions of competition between Japan and the EEC seem less unequal than they were a few years ago ⁽²⁾.

Finally, the European Parliament considers that it would be advisable to look into the possibilities afforded to *European investments in Japan*. As is known, Japan has fairly free scope for investment in Western Europe, while the reverse does not yet apply. Owing mainly to the already large American share in the Japanese economy, it would be a definite disadvantage to the Community if it could not obtain the same opportunities in Japan.

In this respect, reference should be made to the restrictions on capital movements⁽³⁾ in Japan and to the fact that the Japanese money market is large enough to cover investment requirements.

48. It seems unlikely that the Community will be in a position, within the framework of the forthcoming negotiations, immediately to introduce a general liberalization. The products referred to as sensitive⁽⁴⁾ (i.e. for which independent import regulations are suggested) would probably not lend themselves to such a project in the near future. *The negotiations should mainly bear on the final nature of trade relations between the two parties.*

This would, as a matter of fact, raise an intra-Community problem. Japan will presumably ask for compensations (in the form of a limitation of the Community's negative list) before extending the safeguard clause to the four customs areas of the EEC. Yet such a limitation of the EEC's negative list can only be carried into effect if the member States that have already obtained the benefit of that clause through bilateral agreements are, they too, prepared to grant concessions. As, on the other hand, the negative Community list that will emerge from the negotiations will certainly not include all the products which are now subject to quotas in one or several member States, it will not be easy to find appropriate intra-Community compensations.

This does not exclude the fact that, from the view-point of a freely-operating common market, negotiations should in any case also lead to the drawing up of a single Community negative list.

49. It is particularly advisable, however, to establish quite clearly now that extending, to the whole of the Community, the safeguard clauses in respect of which two of the four Community customs areas have already reached bilateral agreement with Japan,

⁽²⁾ See Armengaud Report, Doc. 103/65-66. In 1972, Japan will build a 400,000-ton tanker (UPI of 29.12.69).

Half of the world's total shipping built in 1968 came out of Japanese yards.

⁽³⁾ See para. 38 above

⁽⁴⁾ See paras. 23 et seq.

⁽¹⁾ January 1970.

should be the Community's main objective in the negotiations⁽¹⁾.

The provisions of the mandate of 10 November 1969 on this point mainly refer to actual market disturbances. The Community will certainly agree that Japan, for its part, might also want to have recourse to such emergency measures. This means that the possibility of applying that clause should exist on *both sides*.

On the other hand, sight should not be lost of the fact that the adding of a safeguard clause to an agreement such as the one under consideration must, above all, be regarded as a *preventive* measure. Experience gained on the matter, in particular in connexion with German-Japanese trade relations, shows that frequent application of this clause is hardly likely. The clause must rather be seen as a 'voluntary self-limiting' principle, which is bound to play an increasingly important part in world trade as an appropriate and useful means of preventing market disturbances.

It should also be clearly established at the outset that clauses of this type are neither designed nor may be used as a means of evading commitments ('escape clause'). However if, despite this, the safeguard clauses were to be used as escape clauses, retaliatory measures on either side, with all the attendant drawbacks, would not be long in appearing.

Neither party enjoys at present an entirely free trade system; it may be expected that negotiations will take place and that they will result in additional liberalization (or at least a timetable of further steps in that direction). The two parties will find themselves in a new situation: there will be closer contacts between the two economies and intensified commercial relations but there might also emerge certain difficulties against which the two parties should protect themselves, for it must be recognized that there are undeniable differences between the respective economic structures.

In that respect, the safeguard clauses may strengthen co-operation between the two parties.

The European Parliament hopes, therefore, that negotiations will be successful on that point in particular.

Negotiations with Japan will require a considerable effort on the part of the Community and of some of its member States in particular.

50. To sum up, it must be stated that it is in the interests of the Community to enter into such negotiations with a view to (a) arriving at a single standard import system and (b) creating the possibility of expanding trade relations. This is a task which the authors of the Rome Treaty undertook to carry out in its Preamble. This task must be engaged upon all the more earnestly as the Community as such (i.e. as a market of 180 million people) is gradually replacing the individual member States in regard to world trade.

It should be observed that greater liberalization of trade between the EEC and Japan will certainly also have a favourable effect on the trade of both parties with the United States and that, conversely, if the EEC and Japan were to adopt a protectionist attitude towards each other, this would induce the United States to increase its protectionism. These are obvious conclusions to be drawn from the fact that these three trading units all play an important part in world trade relations and that, as highly-industrialized countries, their exports are bound to go, to a very large extent, to their mutual markets⁽²⁾.

If it is considered, on the other hand, that internal economic expansion is now only possible provided external trade does not cease to grow, the Community must show readiness to 'pay' for greater possibilities of selling European products on the Japanese market by granting greater selling facilities to Japanese products on the market of the Six.

The Community is today in a position to make an almost *unique contribution* to the development and balanced intensification of world trade (the two units concerned have, after all, 180 million and 100 million inhabitants respectively) which is, in the final analysis, in the interests of our welfare and security. However, regardless even of that particular aspect, the results could not only lead to the eagerly desired unification of the trade systems of the six member States but also become an *active* element of the Community's trade policy, particularly in so far as the proposed agreement would have favourable effects on the whole of world trade.

⁽¹⁾ See paras 3 and 37.
Safeguard clauses of this type usually cover two contingencies, viz:
a) a consultation procedure in case of serious difficulties,
b) a provision for urgent cases; this consists in stopping imports and informing the other party.

⁽²⁾ It will be recalled that in 1955 the United States was only able to obtain certain concessions from Japan because the latter had been accorded concessions by certain countries of Europe. These agreed to granting concessions because they, in turn, had obtained concessions from the United States (Curzon, GATT 1965).

A. Products subject to quotas in all the EEC member States when imported from Japan⁽¹⁾

Serial No.	Common Customs Tariff No	Description
1	51.04	Woven fabrics of man-made fibres (continuous)
2	55.09	Other woven fabrics of cotton
3	56.07	Woven fabrics of man-made fibres (discontinuous or waste)
4	58.04	Woven pile fabrics and chenille fabrics
5	60.05	Outer garments and other articles, knitted or crocheted
6	61.02	Women's, girls' and infants' outer garments
7	61.05	Handkerchiefs
8	62.02	Bed linen, table linen, toilet linen and kitchen linen
9	69.11	Porcelain or china tableware and other articles of a kind commonly used for toilet purposes
10	69.12	Other kinds of pottery tableware and other articles of a kind commonly used for toilet purposes

B. Products subject to quotas in three of the four EEC customs areas when imported from Japan⁽¹⁾

Serial No.	Common Customs Tariff No.	Description
1	53.07	Yarn of combed sheep's or lambs' wool (worsted yarn)
2	53.11	Woven fabrics of sheep's or lambs' wool or of fine animal hair
3	64.02	Footwear with outer soles of leather or composition leather
4	69.07/08	Unglazed and glazed setts, flags and paving, hearth and wall tiles
5	82.09 }	Knives, spoons, forks, ladles and similar kitchen or tableware
6	82.14 }	
7	85.25	
		Insulators of any material

⁽¹⁾ See Annex V of Commission's Report to the Council of 18.3.69 (SEC (69) 1175 fin). Note to Members PE.22989.

EEC products subject to quotas when imported into Japan
(under bilateral agreements)

Serial No.	Common Customs Tariff No.	Description
1	22.05	Wine of fresh grapes
2	22.06	Vermouths, and other flavoured grape wines
3	ex 29.44-2 }	Cycloserine (Antibiotics)
4	ex 30.03-1 }	
5	ex 53.11	Woven fabrics of wool or half-wool
6	ex 84.35-1	Automatic printing machinery
7	ex 84.41-1	Industrial sewing machines
8	ex 84.51-1	European-model typewriters
9	ex 93.04	Non-automatic sporting-guns
10	ex 93.04	Rifles and guns

ANNEX III

Application of EEC Treaty Article 115 to products from Japan

Serial No.	Common Customs Tariff No.	Product	France	Fed. Rep. Germany	Italy	Benelux
1	16.04 B to E	Prepared or preserved fish, excluding caviar			+	
2	ex 20.02	Asparagus		+	+	
3	37.02	Films			+	
4	50.02	Raw silk			+	
5	50.04	Silk yarn			+	
6	50.09	Woven fabrics of silk			+	
7	ex 69.07	Mosaic setts			+	+
8	ex 69.08	Setts, flags and paving tiles	+		+	+
9	69.11	Porcelain or china tableware			+	
10	85.03	Primary cells and batteries			+	
11	ex 84.41 A	Sewing machines			+	
12	ex 85.15 A III	Transistor radio receivers			+	
13	ex 90.07 A	Low-priced photographic cameras			+	
14	ex 92.11	Magnetic tape recorders			+	
15	ex 97.03 A	Certain types of toys			+	

